SUMMARY & OUTLOOK

Summary

There was a more moderate leasing performance across the regional offices during the first three months of the year, with most cities recording a quarter on quarter decline in activity.

A total of 1.33 million sq ft completed over the quarter. It should be remembered that the first quarter is often a quieter period for leasing activity and, in fact, Q1 2018 volumes were actually 14% up on the five-year Q1 average figure.

Glasgow, Leeds and Manchester recorded take-up in excess of their five-year Q1 average but activity was more subdued in the other cities, with Edinburgh in particular seeing a slow start to the year.

Both Glasgow and Manchester benefited from further leasing activity from the GPU, who took more than 100,000 sq ft in both locations. The reliance on the public sector continued across the country, with the sector accounting for 30% of transactions in the city centre markets, which is on a par with 2017.

A handful of large transactions underpinned total leasing volumes, with smaller deals most prevalent. In addition to the two GPU lettings, there was just one other deal for more than 50,000 sq ft.

There was an uptick in activity from both professional services companies and the legal sector, with the latter recording volumes at their highest level for more than a year. Walker Morris, a Leeds based legal company, committed to 76,000 sq ft which was the largest UK wide legal deal for more than 12 months.

Supply was effectively stable quarter on quarter and total supply stood at 9.0 million sq ft at the end of March, which equated to a vacancy rate of 8.5%. This figure however disguises an acute shortage of grade A space, which has an average vacancy rate of just 1.8%.

A lack of speculative development completions has exacerbated the pressure on new supply. C&W estimate that just 320,000 sq ft of speculative space completed in Q1, while 40% of the space under construction is prelet. We expect this proportion to increase as any large enquiries are forced to look at the pipeline to satisfy their requirements.

Quarter on quarter rents remained stable, with growth only witnessed in Birmingham. Rents remain under pressure and, looking at rents being negotiated on space under offer, are likely to see further upward movements.

Outlook

The underlying strength of the regional market bodes well for the next 12 months and demonstrates the general resilience of the regional office markets in the face of wider economic challenges and political uncertainty.

Brexit-related issues may see growth inhibited in the short to medium term, as firms possibly delay expansion and investment, while some companies may start to struggle to attract and retain EU workers.

Large scale transactions are likely to be few and far between, with many requirements already satisfied. The exception is likely to be requirements from the public sector - especially if the next phase of government requirements become active. The public sector will be a key driver of leasing activity in the next 12 months.

Overall, leasing volumes are likely to moderate during 2018 and the record levels are unlikely to be repeated. Occupiers will continue to push for greater flexibility; in terms of both the physical space and in lease terms. This draws parallels with the continued growth of the flexible workplace sector. We expect growth of this sector in the core cities to pick up as operators turn their attention to new markets.

2018 will see an increased focus upon the suitability and quality of the product at a point in the market when occupiers from all sectors have demonstrated that cost is not the only consideration.

The shortage of good quality space will continue to characterise the regional office markets. Delivery of new builds will be limited and refurbishments are likely to be increasingly viable as developers seek to take advantage of the window of opportunity. We are likely to see an uptick in preletting activity which will moderate future supply.

While the low grade A supply environment is likely to support rents, this will be tempered by some moderation in take-up. C&W research predict that there will be a further growth in headline rents across the key regional cities but the level of increase will be at a slower pace than seen over the recent past.
1.33 million sq ft

2018 Q1 key regional cities
CBD take-up volume
KEY CBD LEASING HIGHLIGHTS

UK REGIONAL CITIES

2018 Q1 take-up stood at 1,326msf

Number of transactions signed over 50,000 sq ft in 2018 Q1

4.8 million sq ft under construction

14% above 5-year Q1 average

Two were in excess of 100,000 sq ft

40% Prelet or under offer

Largest occupier transactions 2018 Q1

<table>
<thead>
<tr>
<th>Building</th>
<th>Location</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic Square, Glasgow</td>
<td>Glasgow</td>
<td>187,200 sq ft</td>
</tr>
<tr>
<td>Three New Bailey, Manchester</td>
<td>Manchester</td>
<td>157,000 sq ft</td>
</tr>
<tr>
<td>33 Wellington Street, Leeds</td>
<td>Leeds</td>
<td>76,000 sq ft</td>
</tr>
<tr>
<td>The Mint, Leeds</td>
<td>Leeds</td>
<td>48,300 sq ft</td>
</tr>
</tbody>
</table>

Take-up by sector 2018 Q1

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public &amp; Government</td>
<td>30%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>23%</td>
</tr>
<tr>
<td>Media &amp; Tech</td>
<td>14%</td>
</tr>
<tr>
<td>Legal</td>
<td>10%</td>
</tr>
</tbody>
</table>
**KEY CBD LEASING HIGHLIGHTS**

**UK REGIONAL CITIES**

### Regional cities Q1 leasing volumes by grade 2014 - 2018

- **Grade A:**
  - 2014 Q1: 0.0
  - 2015 Q1: 0.2
  - 2016 Q1: 0.4
  - 2017 Q1: 0.6
  - 2018 Q1: 0.8

- **Grade B:**
  - 2014 Q1: 0.0
  - 2015 Q1: 0.2
  - 2016 Q1: 0.4
  - 2017 Q1: 0.6
  - 2018 Q1: 0.8

- **Grade C:**
  - 2014 Q1: 0.0
  - 2015 Q1: 0.2
  - 2016 Q1: 0.4
  - 2017 Q1: 0.6
  - 2018 Q1: 0.8

- **5-year Q1 average:**
  - 2014 Q1: 0.0
  - 2015 Q1: 0.2
  - 2016 Q1: 0.4
  - 2017 Q1: 0.6
  - 2018 Q1: 0.8

### Grade A Q1 supply 2014-2018

- **Birmingham:** £33.50
- **Edinburgh:** £33.50
- **Manchester:** £30.00
- **Bristol:** £32.50
- **Leeds:** £29.50
- **Cardiff:** £25.00
- **Newcastle:** £23.50

### Number of transactions by size band (Q1 2018)

- **1,000-4,999 sq ft:** 117
- **5,000-9,999 sq ft:** 38
- **10,000-19,999:** 7
- **20,000-49,999:** 2
- **50,000-99,999:** 3
- **100,000+:** 2

### Volume of transactions by size band (Q1 2018)

- **1,000-4,999 sq ft:** 246
- **5,000-9,999 sq ft:** 112
- **10,000-19,999:** 86
- **20,000-49,999:** 66
- **50,000-99,999:** 344
- **100,000+:** 205

### Prime rents (March 2018)

- **Newcastle:** £23.50
- **Cardiff:** £25.00
- **Glasgow:** £29.50
- **Leeds:** £30.00
- **Bristol:** £32.50
- **Manchester:** £33.50
- **Edinburgh:** £33.50
- **Birmingham:** £33.50
Atlantic Square, Glasgow

187,200 sq ft let to GPU
Largest transaction in the regional cities
To accommodate
2,700 FTE
LEASING MARKET
BIRMINGHAM CBD

Take-Up

The momentum seen in the latter part of 2017 failed to carry over into 2018. Q1 2018 take-up volumes totalled just under 148,500 sq ft, which is some 6% below the five year Q1 average but still ahead of the same period in 2017.

Newly built or refurbished space dominated leasing activity, accounting for more than two thirds of activity by volume but only one third by number. There was a dearth of large deals, with only four transactions for more than 10,000 sq ft completed. The largest transaction this quarter was to WSP, who leased just over 46,000 sq ft at The Mailbox.

In part due to the aforementioned deal, professional services were the key taker of space in the first three months. Recruitment agencies and engineering & construction firms were particularly active. Flexible workplace operators and the public sector were relatively subdued this quarter.

There was a flurry of regears, while the number of new requirements was subdued. Both these trends, along with occupiers leasing less space per person could impact on total leasing volumes as the year progresses.

Supply

Supply continued on a downward trend, contracting by 5% over the quarter. At the end of March, total supply stood at 1.29 million sq ft, which was down from 1.35 million sq ft at the end of Q4 2017. This equated to a vacancy rate of 6.9%.

Available grade A space fell 10% over the quarter. There was just 450,000 sq ft of Grade A space on the market, which equated to less than one years Grade A take-up. This illustrates the lack of choice in the market, which has the potential to inhibit take-up activity.

Nevertheless, Grade A supply was still above the five-year average (420,000 sq ft) but, with a dearth of development completions. it should trend below average during 2018. Grade A vacancy stood at 2.4%, which was the lowest level since the end of 2016.
LEASING MARKET
BIRMINGHAM CBD

Future Supply

The lack of future supply remains an issue in the Birmingham CBD office market. C&W estimate that there was around 920,000 sq ft of speculative space under construction at the end of March.

The only scheme scheduled for delivery this year is Miller Developments’ 1 Centenary Square, which HSBC has acquired for their new 212,000 sq ft UK headquarter. Miller Developments are also on-site at Arena Central 3, which will be the new home for HMRC.

Speculative development completions are expected to pick up from 2019. Just over half a million sq ft is due to complete in 2019 and a further 400,000 sq ft in 2020.

As a result, supply looks set to contract further in the short term. With vacancy expected to remain low, preletting is likely to absorb some of the space currently under construction.

Prime rents

Prime headline rents continued to come under pressure and increased to £33.50 per sq ft. This quarterly increase translates into annual rental growth of 3.1%.

The limited supply will help support rents but, with expectations that employment growth will be below trend in the short term, C&W expect rents to plateau over the next two years before returning to growth in 2020.

£33.50
Prime rents psf

3.1%
Annual rental growth

Birmingham supply 2014 Q1-2018 Q1

2018 Q1 key transactions

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Total Size (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WSP</td>
<td>The Mailbox</td>
<td>46,100</td>
</tr>
<tr>
<td>West Midlands Trains</td>
<td>134 Edmund Street</td>
<td>21,743</td>
</tr>
<tr>
<td>Home Office</td>
<td>42 Bull Street</td>
<td>12,239</td>
</tr>
<tr>
<td>Orega</td>
<td>The Colmore Building</td>
<td>11,343</td>
</tr>
<tr>
<td>LSH</td>
<td>Interchange Place</td>
<td>9,877</td>
</tr>
</tbody>
</table>
LEASING MARKET
BRISTOL CBD

Take-Up

2018 started in a more subdued manner than that recorded in the latter part of 2017. A total of 124,100 sq ft was let in Q1 2018, which was virtually on a par with the same period in 2017, but is the lowest quarterly take-up since Q4 2015.

This quarter there were few Grade A deals by number, but these still totalled 55,300 sq ft. As a quarterly total this was above the five-year Q1 average.

There were two transactions in excess of 20,000 sq ft. The largest was Immediate Media leasing just under 35,000 sq ft at Eagle House, which will be refurbished.

Underlying demand remained strong, particularly for small units between 3-5,000 sq ft, but transactions are taking longer to complete in the current climate.

Media & tech dominated leasing volumes, accounting for almost 58% of volumes. As well as the aforementioned Immediate Media transaction, there was a further 37,000 sq ft of space leased to the sector.

The majority of deals signed in Q1 2018 were as a result of churn and companies relocating across the city, but there was also evidence of expansion driving decisions. C&W estimate that over 60,000 sq ft of transactions were driven by expansion.

Supply

Total available space contracted by 15% quarter on quarter to stand at 400,200 sq ft, which equates to a vacancy rate of 3.0%. This is an unprecedented low level of supply and Bristol is the tightest UK regional CBD market.

There is a dearth of Grade A space in Bristol, with just 25,000 sq ft on the market. This is the lowest level of Grade A space since late 2001. This available space translates to the equivalent of less than 2 months of Grade A take-up.

The low grade A vacancy rate, at less than 0.2%, will lead occupiers to consider searches much further ahead or compromise on lower quality space

The ongoing shortage of space may inhibit future leasing or lead to more prelets.

Q1 take-up by grade 2014-2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Grade A</th>
<th>Grade B</th>
<th>Grade C</th>
<th>5 year Q1 average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Q1</td>
<td>100</td>
<td>50</td>
<td>50</td>
<td>125</td>
</tr>
<tr>
<td>2015 Q1</td>
<td>75</td>
<td>25</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>2016 Q1</td>
<td>250</td>
<td>100</td>
<td>50</td>
<td>150</td>
</tr>
<tr>
<td>2017 Q1</td>
<td>200</td>
<td>75</td>
<td>25</td>
<td>125</td>
</tr>
<tr>
<td>2018 Q1</td>
<td>150</td>
<td>50</td>
<td>50</td>
<td>125</td>
</tr>
</tbody>
</table>

Source: Cushman & Wakefield

Take-up by sector 2018 Q1

Banking & financial: 58%
Professional services: 19%
Insurance: 4%
Flexible workplaces: 18%
Media & tech: 1%
Legal: 1%
Retail & leisure: 4%
Public & govt: 1%
Other: 1%

Source: Cushman & Wakefield
Future Supply

There are two new buildings under construction in central Bristol. The largest is 3 Glass Wharf, where HMRC has committed to a 107,000 sq ft prelet due for completion in early 2019. The other new build scheme is Cubex’s Aurora development which is scheduled for completion later this year and will provide 95,000 sq ft of new space.

There are a number of refurbishments underway as developers seek to take advantage of the low supply environment; the largest being Legal & General’s Temple Point refurbishment along with a number of smaller schemes.

In the short term, the ongoing shortage of supply is likely to see little relief, with only 190,000 sq ft of speculative space expected to be delivered in the rest of 2018. Vacancy rates will continue trending downwards over the next few years.

Prime rents

Prime rents in Bristol remained stable quarter on quarter at £32.50 per sq ft, but have still recorded the strongest annual rental growth across all the main UK CBD office markets. Compared to 12 months ago, prime rents have increased by over 14%.

The demand and supply imbalance has pushed rents up and, with supply expected to remain low, rents are expected to continue to move upwards during 2018 and into 2019.
LEASING MARKET
CARDIFF CBD

Take-Up

The Cardiff office market recorded a quiet start to the year. A total of 54,000 sq ft was let in the city centre, which was half the level recorded the previous quarter and in Q1 2017.

There were only two transactions over 10,000 sq ft signed in Q1, with activity fuelled by smaller occupiers churning around the market.

The largest transaction was Bizspace purchasing the freehold at Trafalgar House, Fitzalan Place where they intend to occupy part (16,000 sq ft) for a new flexible workplace centre.

Three sectors dominated leasing activity in the first three months of the year. Media & tech, professional services and flexible workplaces who leased 33%, 30% and 29% respectively.

Grade A take-up was subdued, with only one significant transaction signed. This was a prelet to Which Limited, who committed to 11,500 sq ft at 3 Capital Quarter.

Despite a subdued start to the year, there are a number of large active enquiries in the market, which should boost volumes as the year progresses.

Supply

Cardiff city centre supply increased marginally during Q1 2018 to reach 614,000 sq ft. The uplift in supply was as a result of more Grade B space coming onto the market. Despite this moderation, supply remains 17% below the five-year average.

There was a marginal decline in Grade A space, with just 110,000 sq ft available, which reflects the recent dearth of speculative development in the city centre. This is the lowest level since the end of 2013.

The quarter end vacancy rate rose marginally to 6.5%, but the Grade A vacancy rate remained stable at 1.2%.

This equates to supply being able to satisfy just over 12 months of take-up, while for Grade A supply this falls to just four months and clearly indicates the lack of choice for major occupiers.
LEASING MARKET
CARDIFF CBD

Future Supply

Cardiff, like many other regional cities, is suffering from a lack of potential new supply. Total space under construction remained stable quarter on quarter. There is around 163,000 sq ft of speculative space under construction in two schemes. These are 3 and 4 Capital Quarter, which are being developed as part of a mixed use development by JR Smart.

C&W estimate that of all office space currently under construction, over 80% is prelet. This includes the two buildings at Central Square, prelet to GPU, Hugh James Solicitors and Cardiff University.

This lack of development combined with the lack of good quality space is likely to curb leasing activity in the short term.

Limited new supply will lead to falling vacancy rates in the next few years but, due to the expectation of lower take-up than seen in recent years, the pace of decrease will be relatively insignificant in the medium term.

Prime rents

Cardiff prime rents have remained stable since the beginning of 2016 at £25.00. The dearth of new supply will however support rental values in the short term and C&W expect rents to start to move upwards during 2018 and 2019.

£25.00
Prime rents psf
0.0%
annual rental growth

2018 Q1 key transactions

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Total Size (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bizspace</td>
<td>Trafalgar House, Fitzalan Place</td>
<td>15,891</td>
</tr>
<tr>
<td>Which? Limited</td>
<td>3 Capital Quarter</td>
<td>11,550</td>
</tr>
<tr>
<td>Jacobs</td>
<td>Churchill House, Churchill Way</td>
<td>9,083</td>
</tr>
<tr>
<td>Yard Digital</td>
<td>Capital Tower, Greyfriars Road</td>
<td>5,558</td>
</tr>
<tr>
<td>CMD</td>
<td>8 Cae Gwydd, GMS</td>
<td>4,461</td>
</tr>
</tbody>
</table>
LEASING MARKET
EDINBURGH CBD

Take-Up

2018 recorded a slow start with just over 73,000 sq ft let in the first three months. This was down 12% on Q4 volumes and is the lowest Q1 leasing volumes since 2009. Rolling 12 month take-up stood at 740,000 sq ft which is down on last quarter, when the annual total was 787,000 sq ft.

There was a dearth of Grade A lettings this quarter, with Grade A space accounting for less than half of all space let. Small and medium sized companies were the key source of demand. There were no significant transactions in Q1, with the largest deal totalling less than 15,000 sq ft. This was SWECO leasing 14,165 sq ft at Edinburgh Quay Two.

With only a few other deals in excess of 5,000 sq ft, the average deal size remained below 5,000 sq ft this quarter, which is similar to the final three months of 2017. Professional services were the dominant sector, accounting for 44% of total leasing volumes. Beyond this, there was a relatively diverse range of sectors leasing space but both the flexible workplace and public sector were conspicuous by the absence this quarter.

Supply

Supply moved upwards in the first three months of the year but still remained 40% below the five year average. Total supply stood at just over 594,000 sq ft which equated to a vacancy rate of 5.1%.

All grades of space saw an increase in volumes during 2018 Q1. Grade A space increased at a more moderate rate than Grade B/C space and the overall supply of good quality space remains tight. C&W estimate that there was just over 258,000 sq ft of Grade A space on the market at quarter end. This equates to the equivalent of just 10 months Grade A take-up.
LEASING MARKET
EDINBURGH CBD

Future Supply
The limited stock remains a key challenge for the Edinburgh office market and there is little in the pipeline to alleviate this pressure on supply.

There is a total of 558,000 sq ft of space currently underway in either new builds or refurbishments. Of this, just under half is already prelet and a further 100,000 sq ft is currently under offer.

2 Semple Street is the only new scheme due to come to the market this year, but this will do little to alleviate the pressure on Grade A supply in the near term. Looking further ahead, the largest speculative scheme underway is Capital Square, which totals 122,000 sq ft albeit a third of the space is now under offer.

As a result, supply is expected to remain low over the next few years, which will be supported by further preletting.

Prime rents
Prime rents remained stable during the first three months of the year at £33.50 per sq ft. Rents showed marginal positive annual growth with an increase of 1.5% year on year.

Rents are likely to come under further upward pressure and C&W forecast 3.0% growth during 2018.

£33.50
Prime rents psf

1.5%
annual rental growth

Edinburgh supply 2014 Q1-2018 Q1

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Total Size (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SWECO</td>
<td>Edinburgh Quay Two</td>
<td>14,165</td>
</tr>
<tr>
<td>Confidential</td>
<td>Tanfield</td>
<td>7,646</td>
</tr>
<tr>
<td>Cirrus Logic</td>
<td>Quartermile 3</td>
<td>7,363</td>
</tr>
<tr>
<td>SYSTRA</td>
<td>Prospect House, 5 Thistle Street</td>
<td>5,195</td>
</tr>
<tr>
<td>Henderson Loggie</td>
<td>11 Thistle Street</td>
<td>4,483</td>
</tr>
</tbody>
</table>

Prime rents

2018 Q1 key transactions
Take-Up

The momentum seen in the final quarter of 2017 continued into 2018, with strong levels of take-up recorded in the first three months.

A total of 252,500 sq ft was leased, which is almost double the volume let in Q1 2017 and is only the second time that over 250,000 sq ft has taken in the first quarter. As a result, take-up has already exceeded 50% of the 10 year average take-up of 492,335 sq ft.

The largest transaction was the Government Property Unit (GPU) 187,205 sq ft pre-let agreement at Atlantic Square, a joint venture development between BAM Properties and Taylor Clark Properties.

This was the only Grade A transaction signed this quarter, with all remaining deals confined to small Grade B units. There was only one other transaction above 10,000 sq ft completed in Q1, which was to the flexible workplace operator Orega.

Underpinned by the GPU transaction, government, public and associations was the dominant sector. There were more professional services transactions than any other sector, but all deals were below 10,000 sq ft. Aggregated together the sector accounted for 11% of space let.

Supply

There was a marginal 1.0% fall in available space during the first three months of the year. Total availability stood at 1.86 million sq ft, which was virtually on a par with the five year average volumes but was 18% up on a year ago. The vacancy rate fell marginally to 13.4% but still remains high in comparison to other regional cities.

Grade A space contracted over the quarter, but this fall was negated by an increase in Grade C space. The Grade A vacancy rate stood at 2.1%. The volume of Grade A supply is sufficient to satisfy just under a year’s worth of Grade A take-up.. The shortage of Grade A space is anticipated to become more critical, with a large proportion of supply currently under offer combined with a significant volume (800,000 sq ft) of active demand in the market.
LEASING MARKET
GLASGOW CBD

Future Supply

There is a dearth of new development in Glasgow, with just one speculative building currently on site. FORE Partnership commenced the redevelopment of Cad Works, 20 Cadogan Street, which will provide 96,250 sq ft. It is anticipated to be the most sustainable office building in the city when it comes to the market in 2020.

Developers are looking for Grade B stock which can be refurbished and brought to market relatively quickly to take advantage of the window of opportunity.

Larger occupiers in the market are increasingly considering preletting as a route to secure appropriate space.

Prime rents

Prime rents remained stable at £29.50 per sq ft during the first quarter. Rents have been stable at this level for over three years now but C&W expects there to be some minor uplift from this value during 2018. The gap between prime new space and good quality secondary space is diminishing.

Any significant uplift is, however, reliant on major new developments coming online which is not anticipated until 2020 at the earliest.

£29.50
Prime rents psf

0%
annual rental growth

2018 Q1 key transactions

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Total Size (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Property Unit (GPU)</td>
<td>Building 1, Atlantic Square, York Street</td>
<td>187,205</td>
</tr>
<tr>
<td>Orega</td>
<td>9 George Square</td>
<td>21,929</td>
</tr>
<tr>
<td>COWI</td>
<td>310 St Vincent Street</td>
<td>6,990</td>
</tr>
<tr>
<td>HR Consultancy</td>
<td>180 St Vincent Street</td>
<td>5,160</td>
</tr>
<tr>
<td>GVA</td>
<td>Sutherland House, 149 St Vincent Street</td>
<td>4,698</td>
</tr>
</tbody>
</table>

Glasgow supply 2014 Q1-2018 Q1

Prime rents

Prime rents remained stable at £29.50 per sq ft during the first quarter. Rents have been stable at this level for over three years now but C&W expects there to be some minor uplift from this value during 2018. The gap between prime new space and good quality secondary space is diminishing.

Any significant uplift is, however, reliant on major new developments coming online which is not anticipated until 2020 at the earliest.
LEASING MARKET

LEEDS CBD

Take-Up

The Leeds city centre office market saw another robust quarter of leasing activity. Just under 192,000 sq ft was let during Q1 2018. This was the strongest first quarter leasing activity since 2013 and volumes were almost 50% ahead of the five year Q1 average.

The largest transaction signed in Q1 2018 was to Walker Morris who committed to almost 76,000 sq ft at 33 Wellington Street. There was one other transaction signed for more than 10,000 sq ft but, in general, leasing activity was primarily fuelled by small occupiers. As a result, the average unit size was just 6,850 sq ft.

The legal sector was the most active sector for the quarter accounting for 44% of leasing volumes. This was largely boosted by the aforementioned Walker Morris deal but there was a further four legal transactions signed.

By number there were most deals let to professional services companies, which equated to a quarter of space let.

Grade A take-up fell sharply quarter on quarter to the lowest three-monthly volume for more than fifteen years, as occupiers sought more cost effective space. This also reflects the limited choice of Grade A space in the market place. For example, the space that Walker Morris have leased is undergoing significant refurbishment before the company takes occupation.

Supply

Availability fell marginally over the quarter to around 1.2 million sq ft and the vacancy rate dipped below 10.0% for the first time for more than seven quarters. Nevertheless, overall supply remained 7% above the five-year average

With no development completions, Grade A supply decreased quarter on quarter to stand at 274,000 sq ft. This equated to a grade A vacancy rate of 2.2% down from 2.5% as at Q4 2017.

Supply equated to 1.6 years worth of take-up which was the lowest level for two years. The situation was more acute for Grade A space, which has remained stubbornly below 12 months supply for more than three years. At the end of March, Grade A supply was equivalent to just 7 months take-up.
Future Supply

With the recent completion of 3 Wellington Place, there are no new developments underway. The only scheme due to complete during 2018 is CBRE Global Investors refurbishment of 7 Park Row.

A number of large scale new schemes have planning permission, including City Square House and Latitude, but as yet there are no firm plans for their delivery.

In the short term, the limited development pipeline may lead to an increase in prelets for any large enquiries that may emerge, while refurbishments may also start to increase.

Grade A supply is anticipated to contract during the next few years and as such the overall vacancy rate is expected to trend downwards.

Prime rents

Prime rents remained stable quarter on quarter at £30 per sq ft. Nevertheless, on an annual basis rents increased by 11%, up from £27.00 per sq ft, which is one of the strongest rental performances in the key regional cities.

Despite rents being at a peak level, Leeds office space remains relatively cost effective in comparison to other regional cities. C&W forecast further rental growth but will be dependant on new schemes being delivered within the forecast period.

Prime rents psf

£30.00

Annual rental growth

11.1%

2018 Q1 key transactions

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Total Size (sq ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walker Morris LLP</td>
<td>33 Wellington Street</td>
<td>76,000</td>
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<tr>
<td>Dart Group</td>
<td>The Mint</td>
<td>48,272</td>
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<tr>
<td>Sedulo</td>
<td>Part Ground Floor, St Pauls House</td>
<td>6,534</td>
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<tr>
<td>Border to Coast Pensions</td>
<td>Part 5th Floor, Toronto Square, Leeds</td>
<td>6,520</td>
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<tr>
<td>Partnership Limited</td>
<td>Riverside House, Canal Wharf</td>
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<td>ASDA</td>
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</tbody>
</table>
Three New Bailey, Manchester

157,000 sq ft let to HMRC
One of two major public sector transactions signed in Q1 2018
LEASING MARKET
MANCHESTER CBD

Take-Up

The momentum seen in the latter part of 2017 continued into 2018. Leasing activity in Q1 reached just over 442,000 sq ft which is an unprecedented start to a year and is almost 50% ahead of the five year Q1 average.

One transaction dominated activity, with the HMRC preleasing 157,000 sq ft at Thee New Bailey. This was the largest prelet in Manchester for over a decade.

Despite this, underlying take-up was buoyant and would still be up on the same period last year and ahead of the average without the GPU transaction.

Not surprisingly, the government, public and associations was the most active sector and accounted for 36% of volumes. Professional services and media & tech also bolstered leasing volumes, accounting for 19% and 14% respectively.

Flexible workplace providers were subdued this quarter, but interest remains high for new operations in Manchester and demand is expected to increase as the year progresses.

Small sized requirements were most prevalent in Q1, with only five transactions in excess of 10,000 sq ft completed. The focus of demand was on cost effective Grade B space, with only the two largest transactions being for Grade A space.

Supply

Available space fell over the first quarter of the year and stood at 2.8 million sq ft. This was down marginally (2%) on the previous quarter but remained above the five year average of 2.7 million sq ft.

Despite the contraction in supply, Grade A space increased for the third consecutive quarter to reach 425,000 sq ft. It still remained below the five year average and equated to just over one year’s Grade A take-up. The uplift resulted from a number of refurbishments completing including 65,000 sq ft at Dalton Place.

There is a dearth of large units on the market, especially of Grade A space. The supply of Grade A space is fragmented and there are few opportunities to accommodate large scale requirements.

While the overall vacancy rate remains in double figures, the grade A vacancy rate remains low at just over 2.0%.

Take-up by sector 2018 Q1

Source: Cushman & Wakefield

Q1 take-up by grade 2014- 2018

Source: Cushman & Wakefield
LEASING MARKET
MANCHESTER CBD

Future Supply

Space under construction increased over the quarter, as a number of schemes started on site. C&W estimate that there is now 1.28 million sq ft underway, of which three-quarters or 938,000 sq ft is being built or refurbished speculatively.

Refurbishments dominate anticipated completions for 2018 and 2019, with no new speculative schemes expected until Q3 2019 and beyond. The largest new speculative scheme underway was Two New Bailey, which is due to complete in Q2 2020.

Further refurbishment schemes are likely to start to take advantage of the momentum seen in the leasing market and the low volumes of new supply immediately available. Preletting is also likely to be a prevailing trend, as choice for larger occupiers is diminished.

C&W anticipate that supply will continue to contract over the next two years as a direct result.

Prime rents

Prime rents remained stable over the quarter at £33.50 per sq ft. This translates to annual growth of 3.1%.

C&W expect further rental growth over the medium term, with average annual growth of 1.5% per annum over the next five years.

£33.50
Prime rents psf

3.1%
annual rental growth

2018 Q1 key transactions

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Total Size (sq ft)</th>
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</thead>
<tbody>
<tr>
<td>HMRC</td>
<td>Three New Bailey</td>
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<tr>
<td>Irwin Mitchell</td>
<td>One St Peters</td>
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<td>Codethink Ltd</td>
<td>35 Dale Street</td>
<td>15,150</td>
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<tr>
<td>Work Life</td>
<td>Core</td>
<td>12,540</td>
</tr>
<tr>
<td>CBRE</td>
<td>One St Peters</td>
<td>11,309</td>
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</table>
LEASING MARKET
NEWCASTLE CBD

Take-Up

Take-up was up quarter on quarter, albeit it remained relatively subdued at just under 39,200 sq ft. This was up 17% on 2017 Q1 but around 2% below the five year Q1 average.

There was a dearth of Grade A activity in the city centre, with all bar one transaction being for Grade B space.

Small transactions drove leasing activity and for the first time in more than a year there were no transactions for units above 10,000 sq ft. The largest transaction was 9,400 sq ft at 50 Grey Street (terms confidential).

As a consequence, the average unit size let was just under 2,000 sq ft, which was down from over 4,000 sq ft in the previous quarter.

The public sector was the main acquirer of space during the quarter, accounting for a third of all volumes, led by a flurry of small transactions to charities.

Professional services and media & tech were the next most active sectors, admittedly at low levels of activity.

Underlying demand remains robust and the volume of lettings is anticipated to pick up as the year progresses.

Supply

Supply continued on its downward trend, with a marginal contraction quarter on quarter. Total supply stood at 581,000 sq ft which was down 1.1% on the end of 2017 and almost 25% below the five year average.

The vacancy rate contracted to 8.5%; a low level not seen in Newcastle CBD since prior to the GFC.

Grade A space stood at 121,500 sq ft which was down 5% quarter on quarter and is at its lowest point since Q1 2016. Grade A supply equated to the equivalent of 14 months of take-up and reflects a tightening in choice for occupier seeking good quality space in the city centre.

With only one minor refurbishment delivered onto the market during the first three months, there was no relief for larger occupiers. The largest demise on the market was Central Square South, where 43,000 sq ft was available.

Q1 take-up by grade 2014-2018

Take-up by sector 2018 Q1

Source: Cushman & Wakefield
LEASING MARKET
NEWCASTLE CBD

Future Supply

The limited stock of new space on the market is unlikely to be relieved in the short term and will constrain take-up.

There is only one refurbishment currently underway at 71 Grey Street. This scheme is scheduled for completion later this year and will deliver just 21,000 sq ft of space, a large proportion of which is currently under offer.

The 107,000 sq ft Lumen scheme remains the largest planned development in the city centre, with a scheduled delivery in 2019.

As a consequence of the limited supply and grade A absorption, vacancy rates are anticipated to record a year on year decrease over the next five years.

Prime rents

Newcastle prime rents remained stable at £23.50 per sq ft. This translates to annual growth of 2.2% per annum.

Forecasts suggest that rents will increase further over the next five years, albeit at a slower pace than has been evidenced over the preceding five years.

£23.50
Prime rents psf

2.2%
annual rental growth

2018 Q1 key transactions

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Address</th>
<th>Total Size (sq ft)</th>
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<tbody>
<tr>
<td>Confidential</td>
<td>50 Grey Street</td>
<td>9,368</td>
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<tr>
<td>Turner and Townsend</td>
<td>3rd floor Time Central, NE1 4BF</td>
<td>5,228</td>
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<tr>
<td>Jeremy Benn Associates Ltd</td>
<td>Maybrook House, Newcastle upon Tyne</td>
<td>3,783</td>
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<td>Sirius</td>
<td>West One, Newcastle Part 7th Floor</td>
<td>2,764</td>
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<td>TNEI</td>
<td>West One, Newcastle</td>
<td>2,433</td>
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Definitions

All market statistics relate to CBD office space

Supply is defined as space available for immediate occupation. It includes space under offer.

Take-up figures refer to space let, pre-let, or acquired for occupation during the quarter.

Under offer relates to units which a potential occupier has agreed in principle to acquire, subject to negotiation.

Prelets include both off plan—i.e. before construction has started on site—and prelets while under construction but prior to practical completion.

Speculative development relates to newly developed or comprehensively refurbished building undertaken without the benefit of a secured tenant.

Prime rents relate to a consistently achievable headline rental figure that relate to new prime, well located, high specification units of a standard size (10,000 sq ft) commensurate within the predefined market area, assuming there is always existing demand and available supply.